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UNCLAS SECTION 01 OF 02 PRETORIA 004641

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AIDS PROGRAM DBIRX

E.O. 12948: N/A

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SUBJECT: REVISED HEALTH CHARTER FOR THE SOUTH
AFRICAN HEALTH SECTOR

REF: PRETORIA 12948.

Summary: A revised draft Health Charter was released by the South African Minister of Health on October 28, 2005. Once fully established, the Charter will set goals for the improvement and transformation of health services in South Africa, including requirements that health sector enterprises become 50 percent black owned and 30 percent women owned by 2014. End summary.

1. Many sectors of South African business (such as Finance and Mining) have adopted charters outlining sectoral goals, with a key focus on black economic empowerment (BEE). In November 2004, the Minister of Health appointed a task team to prepare a charter for the health sector, and they released a controversial initial draft in July 2005. The Charter is consistent with an overall effort by the Department of Health to overhaul the South African health sector to gain equity of access and more diverse ownership. Generally, the SAG would like to better integrate the well-resourced private health care system and the under-resourced public health care system. Consistent with objectives in other sectors, the SAG would like to encourage greater ownership and control of enterprises by black South Africans and women. The July draft was roundly rejected by the health industry, objecting most strenuously to the requirement for rapid transformation to 51% black ownership. Critics also were concerned that the charter failed to differentiate between small practices, hospital groups and foreign-owned pharmaceutical firms.

2. As a result of numerous comments, targets have been significantly lowered in the revised draft charter, making them much more reasonable. Most targets have been lowered by between fifteen and twenty percent.

3. Significant targets contained in the revised draft include:

- Health enterprises should have 15 percent women (all races) in senior management positions and 25 percent black in management positions by 2010, rising to 30 percent women and 50 percent black by 2014.

- Black South Africans must have 31 percent of the total economic interest in enterprises within the health sector by the year 2014 and black women must hold at least 15 percent of the share to be held by black people by the year 2014.

- The Charter further proposes that health care sector businesses should be at least 35 percent owned or controlled by black South Africans by 2010.

- At least 40 percent of all procurement should be from black empowered firms or black individuals by 2010 and this quota should increase to 60 percent by 2015.

4. In addition to the specific ownership and management targets, the draft Charter states that the private sector health organizations should commit to expending a fixed proportion of their annual income on social responsibility programs.

5. All foreign-owned health services companies also have the option of replacement offerings to meet BEE goals. These may include skills development within the enterprise; funding of training and development programs for health professionals, or active participation in public-private initiatives. The Charter stipulates that foreign owned companies should

demonstrate a commitment to transformation. In this regard they should ensure that their replacement offerings relate to the Charter requirements with regard to access, quality and equity. In this way, the health department anticipates that there will be a direct link between the implementation of (Broad Based Black Economic Empowerment) BBBEE and the strengthening of the public health sector.

6.Small, medium and micro enterprises (SMMEs) also are given some relief from the Charters strict requirements. SMMEs constitute about 35 percent of the South African market for medical devices. Due to their relative size and resources, SMMEs may find it impossible to comply with some of the targets. Companies that can demonstrate that compliance with the Charter scorecard will cause inherent commercial harm to their business are exempted, especially with regard to ownership and discretionary and non-discretionary procurement targets.

7.Media reports indicate that the revised Charter has been much more favorably received by the private health sector, including the Pharmaceutical sector. It is anticipated that the Charter will go a long way toward providing a degree of certainty to all stakeholders on how to approach the countrys BEE goals in the health sector. Business Day newspaper reported that the draft has been welcomed by leading black-owned hospital groups in the country like Netcare. The hospital groups are reported to view the revised draft as providing the market with the clarity required for the implementation of BEE within a reasoned and planned sector transformation strategy that individual companies can respond to.

18. In a discussion with Health Officer, one of the leading pharmaceutical companies in the country, Aspen Pharmaceuticals, voiced concerns about the quotas in the revised charter. Their main concern is that leading pharmaceutical companies proposed reducing the overall BEE percentage to 26 in their presentations to the Charter committee (it was revised to 31 percent in the new draft). Aspen feels that that the 31 percent is still too high. Another concern is that the Charter does not give more significant support for local drug manufacturers. They expressed hope that their concerns would be addressed in the final document as they will be making a presentation to the Department of Health before the 28th November 2005 comment deadline.

19. The Department of Health will accept comments on the revised draft prior to the presentation of a final version, expected on November 28, 2005. Further reporting on this process will follow.

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